**Defense Metals Corp.**

**Condensed Interim Consolidated Financial Statements**

**For the Nine Months Ended December 31, 2023**

**(unaudited)**

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**NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by, and are the responsibility of, the Company's management. The Company's independent auditor has not performed a review of these financial statements.

**DEFENSE METALS CORP.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
(Expressed in Canadian Dollars)

| | Note | **As at December 31, 2023 (unaudited)** | As at March 31, 2023 (audited) |
|---|---|---|---|
| **ASSETS** | | **$** | $ |
| **Current assets** | | | |
| Cash | | **3,173,171** | 1,762,556 |
| Sales tax receivable | | **246,955** | 189,816 |
| Prepaid expenses and deposit | | **112,083** | 94,178 |
| | | **3,532,209** | 2,046,550 |
| **Non-current assets** | | | |
| Exploration and evaluation assets | 5, 7 | **38,547,506** | 30,279,409 |
| Prepaid exploration expenses | | **891,191** | 417,630 |
| **TOTAL ASSETS** | | **42,970,906** | 32,743,589 |
| | | | |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 7 | **1,352,780** | 282,698 |
| Flow-through obligation | 8 | **-** | 373,823 |
| | | **1,352,780** | 656,521 |
| | | | |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital | 6 | **50,906,654** | 39,956,784 |
| Share subscriptions received in advance | | **-** | - |
| Reserves | 6 | **5,542,494** | 4,767,862 |
| Accumulated deficit | | **(14,831,022)** | (12,637,578) |
| | | **41,618,126** | 32,087,068 |
| | | | |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | | **42,970,906** | 32,743,589 |

*The accompanying notes are integral to these condensed consolidated interim financial statements.*

**Going concern** (Note 1)

**Approved on Behalf of the Board of Directors:**

/s/ Craig Taylor
Director

/s/ Luisa Moreno
Director

**DEFENSE METALS CORP.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
(Expressed in Canadian Dollars - Unaudited)

| | Share Capital | | | | | |
|---|---|---|---|---|---|---|
| | Number of Shares | Amount | Subscriptions Received in Advance | Reserves | Accumulated Deficit | Total |
| | | $ | $ | $ | $ | $ |
| **Balance, March 31, 2022** | **161,316,221** | **30,272,295** | **626,610** | **3,621,385** | **(9,927,361)** | **24,592,929** |
| Private placements | 44,209,827 | 12,152,071 | (626,010) | - | - | 11,525,461 |
| Finder's fees – cash | - | (517,190) | - | - | - | (517,190) |
| Finder's fees - warrants | - | (193,500) | - | 193,500 | - | - |
| Share issuance costs | - | (308,448) | - | - | - | (308,448) |
| Warrant and option exercises | 2,176,600 | 333,390 | - | - | - | 333,390 |
| Flow through share premium | - | (1,652,073) | - | - | - | (1,652,073) |
| Stock-based compensation | - | - | - | 859,543 | - | 859,543 |
| Net and comprehensive loss for the period | - | - | - | - | (1,989,060) | (1,989,060) |
| **Balance, December 31, 2022** | **207,702,648** | **40,086,545** | **-** | **4,674,428** | **(11,916,421)** | **32,844,552** |
| | | | | | | |
| **Balance, March 31, 2023** | **207,702,648** | **39,956,784** | **-** | **4,767,862** | **(12,637,578)** | **32,087,068** |
| Private placements | 48,076,923 | 12,500,000 | - | - | - | 12,500,000 |
| Finder's fees – cash | - | (211,026) | - | - | - | (211,026) |
| Finder's fees - warrants | - | (202,000) | - | 202,000 | - | - |
| Share issuance costs | - | (1,137,104) | - | - | - | (1,137,104) |
| Flow through share premium | - | - | - | - | - | - |
| Stock-based compensation | - | - | - | 572,632 | - | 3,632 |
| Net and comprehensive loss for the period | - | - | - | - | (2,191,444) | (2,191,444) |
| **Balance, December 31, 2023** | **255,779,571** | **50,906,354** | **-** | **5,542,494** | **(14,831,022)** | **41,620,126** |

*The accompanying notes are integral to these condensed interim consolidated financial statements.*

**DEFENSE METALS CORP.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**
(Expressed in Canadian Dollars - Unaudited)

| | Note | **For the three months ended December 31, 2023** | For the three months ended December 31, 2022 | **For the nine months ended December 31, 2023** | For the nine months ended December 31, 2022 |
|---|---|---|---|---|---|
| | | **$** | $ | **$** | $ |
| **EXPENSES** | | | | | |
| Consulting | 7 | **212,448** | 186,245 | **622,304** | 531,850 |
| Communications, marketing, investor, and public relations | | **302,510** | 205,947 | **833,288** | 987,065 |
| Office and administrative | 7 | **79,195** | 42,588 | **206,786** | 154,828 |
| Professional | 7 | **74,646** | 155,324 | **250,650** | 297,280 |
| Regulatory and filing | | **12,582** | 54,793 | **81,607** | 92,738 |
| Stock-based compensation | 6,7 | **569,000** | 701,146 | **572,632** | 859,543 |
| **Loss before income taxes** | | **(1,250,381)** | (1,346,043) | **(2,567,267)** | (2,923,302) |
| **Deferred income tax recovery:** | | | | | |
| Flow-through share premium | 8,10 | **-** | 467,121 | **373,823** | 934,242 |
| **Net and comprehensive loss for the year** | | **(1,250,381)** | (878,922) | **(2,193,444)** | (1,989,060) |
| | | | | | |
| **Basic and Diluted Loss Per Share** | | **(0.00)** | (0.00) | **(0.01)** | (0.01) |
| **Weighted Average Number of Shares Outstanding** | | **255,779,571** | 198,729,742 | **246,164,186** | (178,350,618) |

*The accompanying notes are integral to these condensed interim consolidated financial statements.*

**DEFENSE METALS CORP.**
**CONDENSED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**
(Expressed in Canadian Dollars - Unaudited)

| | **For the nine months ended December 31, 2023** | For the nine months ended December 31, 2022 |
|---|---|---|
| | **$** | $ |
| **CASH FLOWS USED IN OPERATING ACTIVITIES** | | |
| **Net loss for the year** | **(2,193,444)** | (1,989,060) |
| Non-cash items: | | |
| Stock-based compensation | **572,632** | 859,543 |
| Flow-through share premium | **(373,823)** | (934,242) |
| Changes in non-cash working capital items: | | |
| Sales tax receivable | **(57,141)** | 85,746 |
| Prepaid expenses and deposit | **(17,905)** | 2,657 |
| Accounts payable and accrued liabilities | **122,605** | (541,739) |
| | **(1,947,076)** | (2,517,095) |
| **CASH FLOWS USED IN INVESTING ACTIVITIES** | | |
| Exploration and evaluation assets | **(7,320,617)** | (4,969,318) |
| Prepaid exploration expenses | **(473,561)** | (357,300) |
| | **(7,794,178)** | (5,326,618) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Private placement proceeds | **12,500,000** | 11,525,461 |
| Finder's fees and share issuance costs | **(1,348,131)** | (825,637) |
| Warrant and option exercises | **-** | 333,390 |
| | **11,151,869** | 11,033,214 |
| **Net change in cash** | **1,410,615** | 3,189,501 |
| **Cash, beginning of the year** | **1,762,556** | 724,812 |
| **Cash, end of the year** | **3,173,171** | 3,914,313 |

*The accompanying notes are integral to these condensed interim consolidated financial statements.*

## 1. NATURE OF OPERATIONS AND GOING CONCERN

The Wicheeda Project is 100% owned by Defense Metals and is 8,301-hectare (~20,534-acre) comprising 6 claims (1,708 hectares) acquired through completion of the Spectrum Mining Corporation ("Spectrum") option agreement (see below), in addition to Defense Metals staking an additional 7 claims (6,593 hectares) between the dates of November 5, 2021 and November 24, 2023.

The head office and the principal address of Defense Metals is Suite 228 – 1122 Mainland Street, Vancouver, BC V6B 5L1, Canada. Defense Metals is traded publicly and listed in Canada on the TSX Venture Exchange, trading symbol DEFN; in the United States on the OTCQB; trading symbol DFMTF; and on the Frankfurt Exchange, trading symbol 35D.

The Company does not have revenues and historically has operating losses. These condensed consolidated financial statements have been prepared on the assumption that Defense Metals will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. A different basis of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at December 31, 2023, the Company had a working capital balance of $2,179,429 (2023 - $1,390,029) but had not advanced its mineral properties to commercial production and, as such is not able to finance day-to-day activities through operations. For the nine months ended December 31, 2023, the Company reported a comprehensive loss of $2,193,444 (2023 - $1,989,060) and as of that date, had an accumulated deficit of $14,831,022 (2023 - $12,637,578).

The Company's continuation as a going concern is dependent upon the results from its mineral property exploration and development activities and its ability to attain profitable operations and generate funds and/or raise equity capital or borrowings sufficient to meet current and future obligations and ongoing operating losses. These uncertainties may cast significant doubt on the ability of the Company to continue operations as a going concern. Management intends to finance operating costs over the next twelve months with private placements of common shares, government grants, or other forms of financing. These consolidated financial statements do not include any adjustments that might result from this uncertainty. Such adjustments could be material.

## 2. BASIS OF PRESENTATION

### Statement of compliance with International Financial Reporting Standards

These interim unaudited consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

These interim unaudited consolidated financial statements were prepared by management, reviewed by Defense Metals' Audit Committee and approved and authorized for issuance by the Board of Directors on February 26, 2024.

### Basis of preparation

These interim unaudited consolidated financial statements have been prepared on an accrual basis except for cash flow information and are based on historical costs except for certain financial instruments at fair value and are presented in Canadian dollars, which is the functional currency of the Company, unless otherwise noted.

## 2. BASIS OF PRESENTATION (continued)

### Basis of consolidation

These interim unaudited consolidated financial statements include the accounts of Defense Metals and its controlled entity (previous to March 31 2023). Control occurs when the Company is exposed to, or has the right to, variable returns from its involvement with an investee and has the ability to affect those returns through its power over the investee. All inter-company transactions and balances have been eliminated in the consolidated financial statement presentation. The Company acquired Spectrum Mining Corporation ("Spectrum") on January 14, 2022 (Note 5). On April 1, 2023, the Company and Spectrum were legally amalgamated with the continuing entity being Defense Metals (Note 5).

### Use of estimates and judgments

The preparation of these interim unaudited consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported expenses during the year. Actual results could differ from these estimates.

There were no significant accounting estimates required by management in preparation of these interim unaudited consolidated financial statements.

***Critical judgments***

*Going Concern*

The assessment of the Company's ability to continue as a going concern and to raise sufficient funds to pay its ongoing operating expenses, meet its liabilities for the ensuing year, and to fund planned and contractual exploration and development programs, involves significant judgment based on historical experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### Functional and presentation currency

The functional currency is the currency of the primary economic environment in which Defense Metals operates and this has been determined to be the Canadian dollar. Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in a currency other than the Canadian dollar are translated at the exchange rate at the reporting date, while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in profit or loss in the period in which they arise.

### Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at the acquisition date fair value. Acquisition costs incurred are expensed.

Acquisitions that do not meet the definition of a business combination are accounted for as asset acquisitions. Consideration paid for an asset acquisition is allocated to the individual identifiable assets acquired and liabilities assumed based on their relative fair values. Asset acquisitions do not give rise to goodwill.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Exploration and evaluation assets**

Defense Metals may hold interests in mineral property interests in various forms, including prospecting licenses, exploration and exploitation concessions, mineral leases and surface rights, and property options. The Company capitalizes payments made in the process of acquiring legal title to these properties. Given the uncertainties surrounding the fair value of the Company's mineral properties, share-based acquisition payments were valued at the fair value of the instruments issued. Mineral property interest acquisition costs are recorded at historical cost. Exploration and evaluation expenditures incurred on properties prior to obtaining legal rights to explore the specific area are charged to operations as incurred.

Exploration and evaluation assets are assessed for impairment if:

(i) sufficient data exists to determine technical feasibility and commercial viability, and
(ii) (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Facts and circumstances as defined in *IFRS 6, Exploration for and Evaluation of Mineral Resources*, are as follows:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exists to indicate that, although development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. Each of the Company's exploration and evaluation assets is considered to be a cash-generating unit.

An impairment loss is reversed if there is indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of amortization, if no impairment loss had been recognized.

**Government assistance**

The Company is eligible for refundable tax credits on qualified resource expenditures incurred in the province of British Columbia, other than flow-through shares financings. This credit is recorded as a government grant against exploration and evaluation assets when there is reasonable assurance that the amounts claimed qualify and the amounts will be received.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Income taxes**

Current income tax:

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is recognized, using the asset and liability method, on temporary differences at the reporting date arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

**Restoration and environmental obligations**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company’s estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company’s estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. At this stage, the Company’s potential obligations for restoration and environmental costs are determined to be immaterial.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Share-based payments**

Defense Metals may grant stock options to buy common shares of the Company through a stock option plan. The Company accounts for share-based payments using the fair value method. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to reserves. The fair value of options is determined using the Black-Scholes option pricing model which incorporates all market vesting conditions. Expected volatility in the Black-Scholes option pricing model was based on the historical stock price of the Company.

The Company may grant stock options that are subject to various vesting terms. Under IFRS, the fair value of each instalment of the award is considered a separate grant based on the vesting period with the fair value of each instalment determined separately and recognized as compensation expense over the term of its respective vesting period. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

All equity-settled share-based payments are reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserve is credited to share capital along with any consideration paid. Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest, except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense. On expiration of options, the previously recognized amount is left in the reserves.

**Financial instruments**

**Financial assets**

(a) Recognition and measurement of financial assets

The Company recognizes a financial asset when it becomes a party to the contractual provisions of the financial instrument.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Financial instruments** (continued)

**Financial assets** (continued)

(b) Classification of financial assets

The Company classifies financial assets at initial recognition as financial assets: measured at amortized cost, measured at fair value through other comprehensive income ("FVTOCI") or measured at fair value through profit or loss ("FVTPL").

(i) Financial assets measured at amortized cost

A financial asset that meets both of the following conditions is classified as a financial asset measured at amortized cost:

- The Company's business model for such financial assets, is to hold the assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the amount outstanding.

A financial asset measured at amortized cost is initially recognized at fair value plus transaction costs directly attributable to the asset. After initial recognition, the carrying amount of the financial asset measured at amortized cost is determined using the effective interest method, net of impairment loss, if necessary.

(ii) Financial assets measured at FVTPL

A financial asset measured at fair value through profit or loss is recognized initially at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial asset is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company's cash is measured at fair value are FVTPL financial instruments.

(iii) Financial assets measured at FVTOCI

A financial asset measured at fair value through other comprehensive income is recognized initially at fair value plus transaction costs directly attributable to the asset. After initial recognition, the asset is measured at fair value with changes in fair value included as "financial asset at fair value through other comprehensive income" in other comprehensive income.

(c) Derecognition of financial assets

The Company derecognizes a financial asset if the contractual rights to the cash flows from the asset expire, or the Company transfers substantially all the risks and rewards of ownership of the financial asset. Any interests in transferred financial assets that are created or retained by the Company are recognized as a separate asset or liability. Gains and losses on derecognition are generally recognized in profit or loss.

However, gains and losses on derecognition of financial assets classified as FVTOCI remain within accumulated other comprehensive loss.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Financial instruments** (continued)

**Financial liabilities**

(a) Recognition and measurement of financial liabilities

The Company recognizes a financial liability when it becomes a party to the contractual provisions of a financial instrument.

(b) Classification of financial liabilities

(i) Financial liabilities measured at amortized cost

A financial liability at amortized cost is initially measured at fair value less transaction cost directly attributable to the issuance of the financial liability. Subsequently, the financial liability is measured at amortized cost based on the effective interest rate method.

The Company's accounts payable and accrued liabilities are classified as financial liabilities measured at amortized cost.

(ii) Financial liabilities measured at fair value through profit or loss

A financial liability measured at fair value through profit or loss is initially measured at fair value with any associated transaction costs being recognized in profit or loss when incurred. Subsequently, the financial liability is re-measured at fair value, and a gain or loss is recognized in profit or loss in the reporting period in which it arises.

The Company does not have any liabilities classified as financial liabilities measured at fair value through profit or loss.

(c) Derecognition of financial liabilities

The Company derecognizes a financial liability when the financial liability is discharged, cancelled or expired. Generally, the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**Financial instruments** (continued)

Offsetting financial assets and liabilities
Financial assets and liabilities are offset and the net amount is presented in the consolidated statement of financial position only when the Company has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment of financial assets
The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost.

At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to twelve month expected credit losses. The Company shall recognize in profit or loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

**Earnings (loss) per share**
Basic earnings (loss) per share is calculated by dividing the net earnings available to common shareholders by the weighted average number of common shares outstanding during the period. The diluted earnings per share are calculated based on the weighted average number of common shares outstanding during the period, plus the effects of the dilutive common share equivalents. This method requires that the dilutive effect of outstanding options and warrants issued be calculated using the treasury stock method. This method assumes that all common share equivalents have been exercised at the beginning of the period (or at the time of issuance, if later), and that the funds obtained thereby were used to purchase common shares of the Company at the average trading price of common shares during the period.

**Flow-through shares and units**
Defense Metals will from time-to-time issue flow-through common shares and units to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. At the time of closing a financing involving flow-through shares, the Company allocates proceeds received first to common shares based on the market trading price of the common shares at the time the flow-through shares are issued, and any excess is allocated to flow-through premium liability.

At the time of closing a financing involving flow-through units consisting of common shares and warrants, the Company allocates proceeds received as follows: (i) share capital – the market trading price of the common share; (ii) flow-through share premium – equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability; and (iii) warrant reserve – any excess.

Upon expenses being incurred, the Company derecognizes the liability and credits other income when the entity renounces the tax benefits to the shareholders. Costs incurred in connection with the issuance of flow-through shares reduce the flow-through liability on a pro-rata basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Flow-through shares and units (continued)

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as flow-through expenditure commitments. The Company is also subject to a Part XII.6 tax on unspent flow-through proceeds, renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

### Share capital

Agent's warrants issued as purchase consideration in non-monetary transactions are recorded at fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as consideration for exploration and evaluation assets is based on the trading price of those shares on the TSX Venture Exchange on the date of issuance of shares as determined by the Board of Directors. Proceeds from unit placements are allocated between shares and warrants issued using the residual method whereby proceeds are allocated first to common shares based on the market value of the common shares at the time the units are issued, and any excess is allocated to warrants.

### New accounting standards issued but not yet effective

Classification of Liabilities as Current or Non-current (Amendments to IAS 1) – The amendments to IAS1 provide a more general approach to the classification of liabilities based on the contractual arrangements in place at the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2023 and are not expected to have a material impact on the consolidated financial statements.

## 4. FINANCIAL AND CAPITAL RISK MANAGEMENT

IFRS 13 establishes a fair value hierarchy that prioritizes the valuation techniques for each financial instrument measured at fair value. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgement.

The methods and assumptions used to develop fair value measurements are: Level 1 - includes quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 - includes inputs, other than quoted prices included in Level 1, that are observable for an asset or liability, either directly (i.e. as process) or indirectly (i.e. derived from process); and, Level 3 - includes inputs that are not based on observable data.

| | Level | **December 31, 2023** | March 31, 2023 |
|---|---|---|---|
| | | **$** | $ |
| Cash | 1 | **3,173,171** | 1,762,556 |

The fair values of the Company's accounts payable and accrued liabilities approximate their carrying values due to the short-term nature of the financial instruments.

## 4. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

### Management of Financial Risk

Defense Metals' financial instruments are exposed to certain financial risks, which include the following:

***Credit risk***
Credit risk is the risk of loss due to the counterparty's inability to meet its obligations. Defense Metals' exposure to credit risk is on its cash. Risk associated with cash is managed through the use of major banks which are high credit quality financial institutions as determined by rating agencies.

***Liquidity risk***
Liquidity risk is the risk that the Company will encounter difficulties in meeting obligations when they become due. The Company ensures that there is sufficient capital in order to meet short-term operating requirements, after taking into account the Company's holdings of cash and the Company's liabilities. The Company's cash is held in corporate bank accounts available on demand. As at December 31, 2023, Defense Metals had cash balance of $3,173,171 (2023 - $1,762,556) to fulfill accounts payable and accrued liabilities obligations of $1,352,780 (2023 - $282,698). The financial liabilities as at December 31, 2023 are due within 90 days. The Company manages liquidity risk through the management of its capital structure. The Company has no income from operations or a regular source of cash flow and relies on equity funding to support its exploration and corporate activities. Should the need for equity funding arise, there is a risk that the Company may not be successful in selling new common shares at acceptable prices.

***Capital Finance Risk***
The Company will require additional financing and investment to advance beyond the completion of the pre-feasibility study for the Wicheeda Project to undertake a bankable feasibility study and ultimately toward achieving commercial production. Additional funds may not be available when the Company needs them, on terms that are acceptable, or at all. If adequate funds are not available to the Company on a timely basis, it may be unable to proceed with future development of the Wicheeda Project or with other exploration, development or acquisition of property interests to carry out its business plan, if desired, which could materially affect the Company's business, results of operations, financial condition and prospects.

***Market risk***
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and price risk.

***Currency risk***
The Company is subject to normal market risks including fluctuations in foreign exchange rates. While the Company manages its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure. There is low foreign exchange risk to the Company as the Company primarily operates within Canada.

***Interest rate risk***
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to significant interest rate risk.

(Expressed in Canadian Dollars - Unaudited)

## 5. EXPLORATION AND EVALUATION ASSETS

***Price risk***

The Company is exposed to price risk with respect to equity prices. Price risk as it relates to the Company is defined as the potential adverse impact on the Company's ability to raise financing due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

***Capital management***

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of components of shareholders' equity. There were no changes in the Company's approach to capital management during the period ended December 31, 2023. The Company is not subject to any externally imposed capital requirements.

| | **Wicheeda Project** |
|---|---|
| | $ |
| **Balance at March 31, 2022** | **24,138,630** |
| Drilling | 1,402,517 |
| Environmental | 187,768 |
| Field and camp costs | 697,776 |
| Geological (Note 7) | 1,525,892 |
| Geotechnical | 145,756 |
| Helicopter survey | 612,086 |
| Geochemical | 836,335 |
| Management and administration (Note 7) | 183,069 |
| Permitting related | 156,765 |
| Pilot plant | 128,991 |
| Prefeasibility study | 5,150 |
| Preliminary economic assessment | 258,674 |
| **Balance at March 31, 2023** | **30,279,409** |
| Drilling | 642,587 |
| Environmental | 131,079 |
| Field and camp costs | 664,135 |
| Geological (Note 7) | 1,449,392 |
| Helicopter and survey | 771,669 |
| Geochemical | 407,283 |
| Management and administration (Note 7) | 193,334 |
| Permitting related | 634,896 |
| Pilot plant | 1,716,796 |
| Prefeasibility study | 1,656,926 |
| **Balance at December 31, 2023** | **38,547,506** |

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

**Acquisition of Spectrum Mining Corporation**

On November 22, 2018, Defense Metals entered into an option agreement to acquire all the issued and outstanding shares of Spectrum (the "Option Agreement"), which at the time was the beneficial and registered holder of 100% interest in six of Wicheeda Project claims. To exercise the option, Defense Metals incurred exploration expenditures, issued shares to Spectrum shareholders, and made cash payments to Spectrum.

On January 14, 2022, Defense Metals exercised its option and acquired 100% of the Wicheeda Project through the acquisition of 100% through the issuance of Defense Metals shares to Spectrum shareholders, payment of cash to Spectrum shareholders, and issuance of 1,171,733 common shares pursuant to a finder's fee agreement with Mulgravian Ventures Corporation (Note 7), entered into in connection with the Option Agreement.

The Wicheeda Project is 100% owned by Defense Metals and is 6,759 hectares (~16,702-acres) in total, comprising 6 claims (1,708 hectares) acquired through the acquisition of Spectrum, in addition to an additional 6 claims (5,051 hectares) staked by Defense Metals between the dates of November 5, 2021 and June 6, 2023, for a total of 12 claims.

The Wicheeda Property is subject to a 2.0% net smelter returns royalty ("NSR Royalty") payable upon the commencement of any commercial production. The Company shall have the irrevocable right to purchase one-half (1/2) of the NSR Royalty from the Vendors, on a basis pro rata to their prior shareholdings in Spectrum (being 1.0% of Net Smelter Returns) for $1,000,000, leaving the Vendors with an aggregate 1.0% NSR Royalty.

On April 1, 2023, the Company amalgamated with Spectrum, all the issued shares of which were held by the Company, under section 273 of the *Business Corporations Act* (British Columbia) (the "Amalgamation"), with the continuing entity being Defense Metals. Accordingly, the shares of Spectrum were cancelled pursuant to the Amalgamation.

## 6. EQUITY

**Share Capital**

Authorized share capital of the Company consists of an unlimited number of fully paid Class A common shares without par value and an unlimited number of Class B preferred shares without par value of which none are issued and outstanding.

***For the nine ended December 31, 2023***

On May 25, 2023, Defense Metals closed a non-brokered private placement financing for gross proceeds of $12,500,000 comprising: 22,367,977 common shares at a price of $0.26 per share ("LIFE Offering"), and 25,708,946 common shares at a price $0.26 per share ("Concurrent Offering"). In connection with the LIFE Offering and the Concurrent Offering, the Company paid aggregate cash finder's fees of $211,056 and issued 2,311,753 non-transferable common share warrants. The warrants are exercisable at $0.32 per common share for a period of two years from issuance. Subject to compliance with applicable regulatory requirements and in accordance with National Instrument 45-106 – *Prospectus Exemptions* ("NI 45-106"), the common shares issued pursuant to the LIFE Offering were offered for sale to purchasers resident in Canada, except Quebec, and/or other qualifying jurisdictions pursuant to the 'listed issuer financing exemption' under Part 5A of NI 45-106.

***For the year ended March 31, 2023 (continued)***

***For the year ended March 31, 2023***

On April 5, 2022, the Company closed a non-brokered private placement of 8,996,267 units and 6,340,057 flow-through shares for gross proceeds of $4,558,050. Each unit was priced at $0.26 and is comprised of one common share and one transferable common share purchase warrant. Each warrant is exercisable to purchase one common share of the Company at a price of $0.40 per share for a period of 24 months from the date of closing the private placement. No value was allocated to warrants. Each flow-through share was priced at $0.35 per share. The Company paid aggregate cash finder's fees of $162,152 and issued 487,087 broker warrants exercisable at a price of $0.35 per share for 24 months.

On May 20, 2022, the Company closed a non-brokered private placement of 4,545,456 flow-through shares for gross proceeds of $1,500,000. Each flow-through share was priced at $0.33 per share. The Company paid a cash finder’s fee of $90,000 and issued 272,727 broker warrants exercisable at a price $0.33 per share for 24 months.

On December 8, 2022, Defense Metals closed a private placement financing for gross proceeds of $6,094,020 comprising: (i) 12,364,172 flow-through common shares at a price of $0.28 per flow-through share for gross proceeds of $3,461,968; and (ii) 11,963,875 units (the "Units") at a price of $0.22 per Unit for gross proceeds of $2,632,052. Each Unit comprises one common share and one-half of a non-transferable common share purchase warrant (each whole warrant, a “Warrant”). Each Warrant entitles the holder thereof to purchase one common share at a price of $0.32 exercisable until December 8, 2024. The Company paid aggregate cash finder's fees of $265,037 and issued 1,049,246 non-transferable finder warrants to certain brokers comprising 366,882 of which are exercisable at a price of $0.22 per share, 128,571 exercisable at a price of $0.28 per share, and 553,793 exercisable at $0.32 until December 8, 2024.

The Company incurred other cash finder’s fees of $128,016 and other share issuance costs of $308,548 in addition to the cash finder’s fees discussed above.

During the year ended March 31, 2023, 1,826,600 share purchase warrants were exercised for $0.15 per share for gross proceeds of $273,990.

During the year ended March 31, 2023, 350,000 stock options were exercised for $0.17 per share for gross proceeds of $59,500. The stock price on the date of exercise was $0.28.

**<u>Options</u>**

***For the period ended December 31, 2023***

On December 15, 2023, the Company granted 5,700,000 options to directors, officers and consultants of the Company. Of these options granted, 200,000 were granted to a third-party investor relations company and vest over a period of twelve months in equal portions every three months starting three months from the date of grant. These options had a grant date fair value of $549,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: $0.16; ii) share price: $0.16; iii) term: 3 years; iv) volatility: 93%; v) risk-free interest rate: 3.44%.

On December 16, 2023, the Company granted 200,000 options to a consultant of the Company. These options had a grant date fair value of $20,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: $0.18; ii) share price: $0.17; iii) term: 3 years; iv) volatility: 93%; v) risk-free interest rate: 3.43%.

(Expressed in Canadian Dollars - Unaudited)

**6. EQUITY** (continued)

***For the year ended March 31, 2023***

On April 12, 2022, the Company granted 900,000 options to consultants of the Company. Of these options granted, 100,000 were granted to a third-party investor relations company and vest over a period of twelve months in equal portions every three months starting three months from the date of grant. Another 300,000 were granted to another marketing consulting company and vest over a period of six months in equal portions every three months starting from the date of grant. These options are exercisable at $0.29 per share for a period of two years. These options had a grant date fair value of $130,550 calculated using the Black-Scholes model with the following inputs: i) exercise price: $0.29; ii) share price: $0.29; iii) term: 2 years; iv) volatility: 93%; v) risk-free interest rate: 2.336%.

On December 8, 2022, the Company granted 5,400,000 options to directors, officers and consultants of the Company. Of these options granted, 250,000 were granted to a third-party investor relations company and vest over a period of twelve months in equal portions every three months starting three months from the date of grant. These options are exercisable at $0.22 per share for a period of three years. These options had a grant date fair value of $706,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: $0.22; ii) share price: $0.21; iii) term: 3 years; iv) volatility: 99%; v) risk-free interest rate: 3.338%.

On January 11, 2023, the Company granted 800,000 options to directors and consultants of the Company. These options are exercisable at $0.22 per share for a period of three years. These options had a grant date fair value of $124,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: $0.24; ii) share price: $0.245; iii) term: 3 years; iv) volatility: 99%; v) risk-free interest rate: 3.395%.

The Company granted the following incentive stock options to officers, directors, and consultants:

| | Number of Options | Weight Average Exercise Price | Weighted Average Life (years) |
|---|---|---|---|
| **Balance, March 31, 2022** | **15,466,333** | **$0.26** | **2.46** |
| Granted | 7,100,000 | $0.23 | 2.56 |
| Exercised | (350,000) | $0.17 | - |
| Forfeited | (1,260,000) | $0.25 | - |
| Expired | (650,000) | $0.26 | - |
| **Balance, March 31, 2023** | **20,306,333** | **$0.25** | **1.93** |
| Granted | 5,900,000 | $0.16 | 3.00 |
| Expired | (935,000) | $0.20 | - |
| **Balance, December 31, 2023** | **25,271,333** | **$0.23** | **1.64** |

(Expressed in Canadian Dollars - Unaudited)

**6. EQUITY** (continued)

The following stock options were outstanding and exercisable at December 31, 2023:

| Number of Options Outstanding | Number of Options Vested and Exercisable | Exercise Price | Expiry Date |
|---|---|---|---|
| 371,333 | 371,333 | $0.25 | January 24, 2024 |
| 400,000 | 400,000 | $0.20 | May 29, 2024 |
| 750,000 | 750,000 | $0.16 | December 24, 2024 |
| 600,000 | 600,000 | $0.18 | February 13, 2025 |
| 325,000 | 325,000 | $0.15 | April 7, 2025 |
| 200,000 | 200,000 | $0.20 | September 21, 2025 |
| 475,000 | 475,000 | $0.65 | February 22, 2024 |
| 300,000 | 300,000 | $0.46 | March 11, 2024 |
| 550,000 | 550,000 | $0.25 | July 16, 2024 |
| 300,000 | 300,000 | $0.27 | October 25, 2024 |
| 300,000 | 300,000 | $0.22 | January 17, 2025 |
| 8,000,000 | 8,000,000 | $0.26 | January 21, 2025 |
| 600,000 | 575,000 | $0.29 | April 12, 2024 |
| 5,400,000 | 5,212,500 | $0.22 | December 8, 2025 |
| 800,000 | 800,000 | $0.22 | January 11, 2026 |
| 5,700,000 | 5,500,000 | $0.16 | December 15, 2026 |
| 200,000 | 200,000 | $0.18 | December 19, 2026 |
| **25,271,333** | **25,071,333** | | |

(Expressed in Canadian Dollars - Unaudited)

**Warrants**

Defense Metals issued the following warrants:

| | Number of Warrants | Weight Average Exercise Price | Weighted Average Life (years) |
|---|---|---|---|
| **Balance, March 31, 2022** | **22,856,600** | **$0.38** | **1.62** |
| Granted | 16,787,265 | $0.36 | 1.30 |
| Exercised | (1,826,600) | $0.15 | - |
| Expired | (4,155,000) | $0.34 | - |
| **Balance, March 31, 2023** | **33,662,265** | **$0.39** | **1.22** |
| Granted | **2,311,753** | **$0.32** | **1.15** |
| **Balance, December 31, 2023** | **35,974,018** | **$0.38** | **0.46** |

On May 25, 2023, the Company granted 811,753 broker warrants. The broker warrants have a term of two years and are exercisable at $0.32 per share. These warrants had an aggregate fair value of $71,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: $0.32 per share; ii) share price: $0.245; iii) term: 2 years; iv) volatility: 76.63%; v) risk-free interest rate: 3.973%.

On May 25, 2023, the Company granted 1,500,000 advisor warrants related to the closing of the private placement on the same day. The broker warrants have a term of two years and are exercisable at $0.32 per share. These warrants had an aggregate fair value of $131,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: $0.32 per share; ii) share price: $0.245; iii) term: 2 years; iv) volatility: 76.63%; v) risk-free interest rate: 3.973%.

In estimating the fair value of broker warrants issued using the Black-Scholes option pricing model, the Company is required to make assumptions. The expected volatility assumption is based on the historical volatility of the Company. The risk-free interest rate assumption is based on yield curves on Canadian government zero-coupon bonds with a remaining term equal to the warrants' expected life. The Company uses historical data to estimate warrant exercise within the valuation model. The Company has historically not paid dividends on its common stock.

The following warrants were outstanding and exercisable at December 31, 2023:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 15,625,000 | $0.43 | May 17, 2024 |
| 1,250,000 | $0.32 | May 17, 2024 |
| 8,996,267 | $0.40 | April 5, 2024 |
| 487,087 | $0.35 | April 5, 2024 |
| 272,727 | $0.33 | May 20, 2024 |
| 5,981,938 | $0.32 | December 8, 2024 |
| 553,793 | $0.32 | December 8, 2024 |
| 128,571 | $0.28 | December 8, 2024 |
| 366,882 | $0.22 | December 8, 2024 |
| 811,753 | $0.32 | May 25, 2025 |
| 1,500,000 | $0.32 | May 25, 2025 |
| **35,974,018** | | |

(Expressed in Canadian Dollars - Unaudited)

## 7. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Key management personnel include those persons having the authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers and companies controlled by them. The table below summarizes key management compensation for various services received by the Company:

| | **Nine months ended December 31, 2023** | Nine months ended December 31, 2022 |
|---|---|---|
| | **$** | $ |
| Exploration and evaluation | **1,218,368** | 1,133,030 |
| Office and administrative | **9,450** | 9,450 |
| Consulting | **236,500** | 217,500 |
| Professional fees | **90,000** | 79,000 |
| Stock-based compensation | **346,737** | 313,778 |

As at December 31, 2023, $2,350 (2023 - $Nil) was owing to a private company owned by the Chief Financial Officer for expenses paid on behalf of the Company; $213,017 (2023 - $Nil) was owing to a company for geological services of which a director was a principal of; $329 (2023 - $Nil) was owing to a director for consulting fees and reimbursable expenses; and $31,500 (2023 - $Nil) owing to the President of the Company for geological and consulting services rendered in the quarter. Amounts owing to related parties are unsecured, non-interest bearing, and carry no fixed terms of repayment.

## 8. COMMITMENTS

During the year ended March 31, 2023, the Company entered into flow-through share subscription agreements whereby it was obligated to incur a total of $7,180,988 on flow-through eligible exploration expenditures. As of March 31, 2023, $5,408,120 has been incurred and the Company has a flow-through obligation of $1,772,858 relating to unspent exploration commitments. The Company must incur the eligible expenditures within 24 months from issuing the flow-through shares.

The flow-through shares were issued at a premium in recognition of the tax benefits accruing to subscribers. The flow-through share premium was calculated to be $1,698,819 and as at March 31, 2023, $1,324,996 was recognized as a settlement of the flow-through premium leaving $373,823 as a flow-through obligation in the consolidated statement of financial position. During the period ended December 31, 2023, the Company recognized the remainder of the $373,823 as a settlement of the flow-through share premium.

## 9. SEGMENTED INFORMATION

Defense Metals operates in one business segment, being the exploration, development and evaluation of the Wicheeda REE Project in British Columbia, Canada.

## 10. SUBSEQUENT EVENTS

On January 26, 2024 the Company granted 400,000 options to a consultant of the Company. These options had a grant date fair value of $59,000 calculated using the Black-Scholes model with the following inputs: i) exercise price: $0.24; ii) share price: $0.24; iii) term: 3 years; iv) volatility: 95%; v) risk-free interest rate: 3.67%.

On January 17, 2024, the Company closed a non-brokered private placement of 2,841,678 common shares at a price of $0.26 per share for gross proceeds of $738,836.